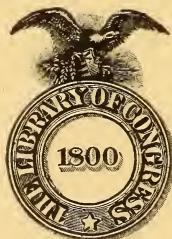


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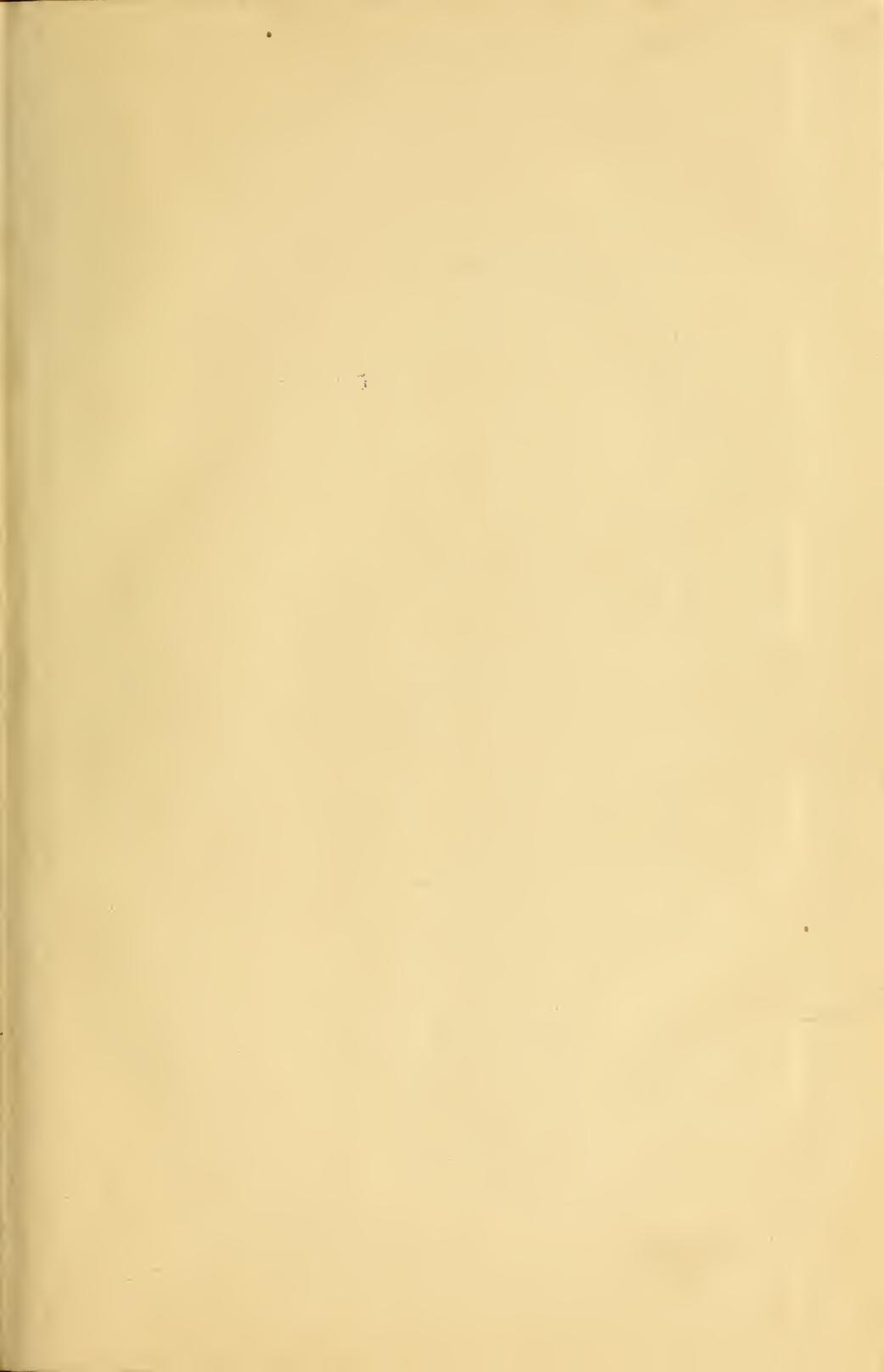
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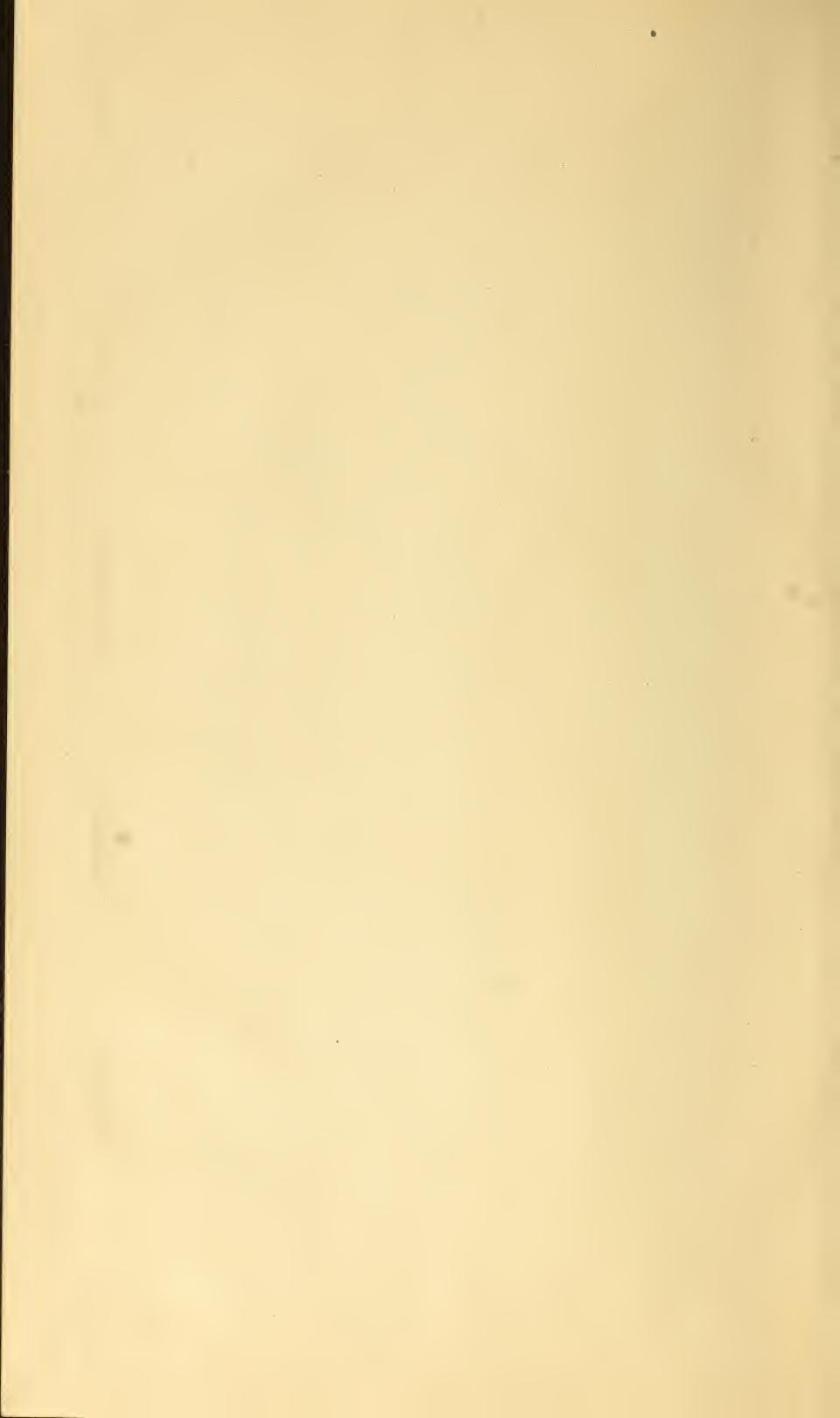


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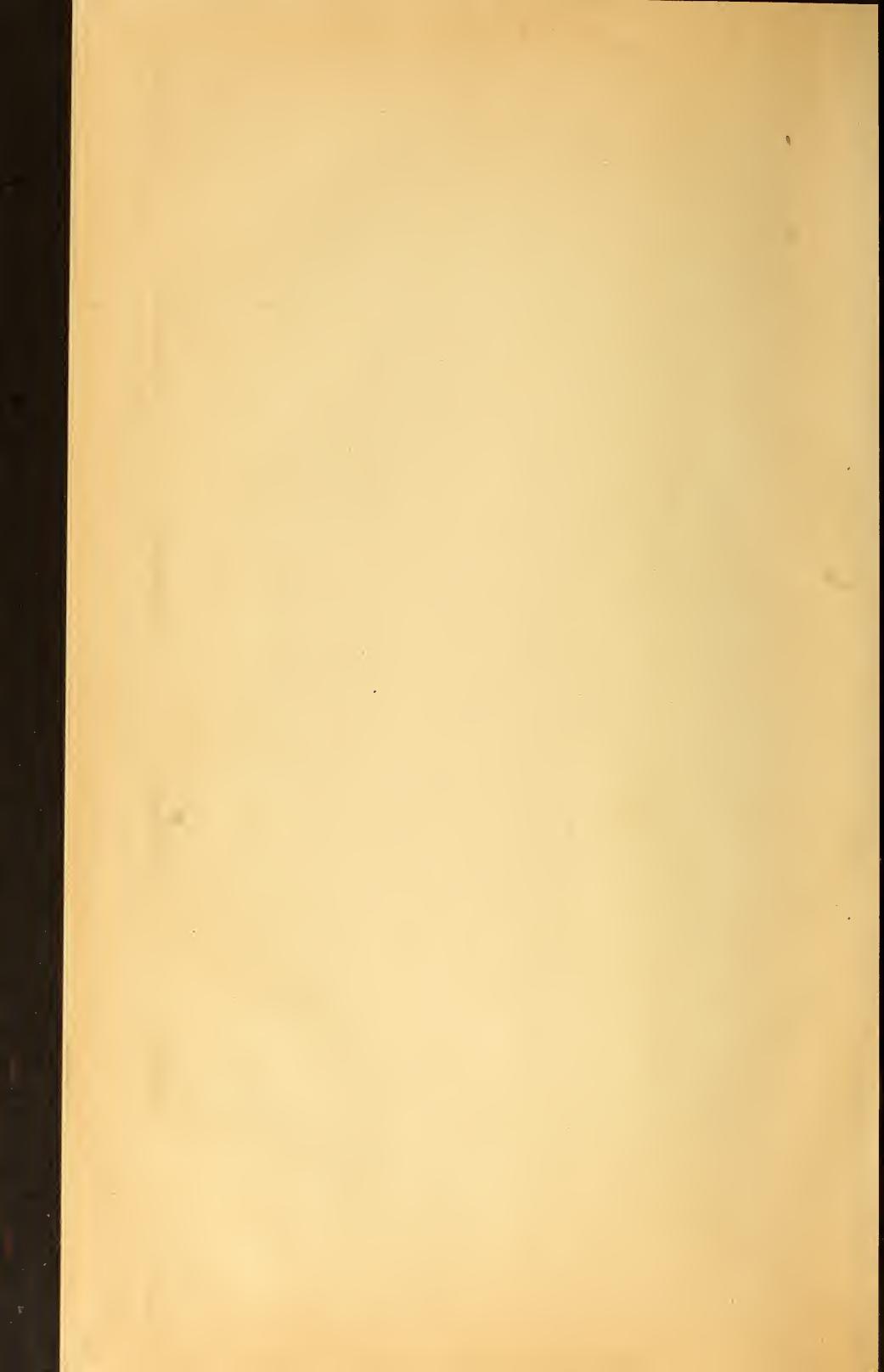
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A LECTURE

DELIVERED AT THE

University of Pennsylvania

OCTOBER 17, 1906

BY HENRY DARRACH

Of the Philadelphia Bar

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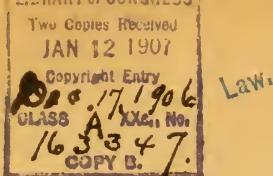
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INSURANCE

2285 B. C.—1906 A. D.

BY

HENRY DARRACH,

Of the Philadelphia Bar,

DELIVERED AT THE UNIVERSITY OF PENNSYLVANIA,

OCTOBER 17, 1906

From the earliest records it is learned that humanity recognised that calamitous consequences had occurred from certain unforeseen and uncontrollable events, and were likely to re-occur in periods of longer or shorter duration ; and to guard against their evil results methods of indemnity were early adopted.

It may be presumed that in all ages and in all countries Indemnity some one or more methods of indemnity were in use, and that all of the older systems, or some of their modified forms, are still in use, and under certain conditions seem satisfactory.

In order to understand the value of the old methods, it is well to consider the time and country in which they were in use, and how far they gave or were intended to give protection.

The old systems were never used for mercantile and manufacturing protection and credits (except marine insurance), but confined to protect property of small value and in limited areas.

The subjects covered by insurance have necessarily been a matter of growth, and have expanded to such an extent as to cover almost every known contingency.

The various Systems of Indemnity may be properly grouped under five heads :—

1. GOVERNMENT INSURANCE. (P. 4.)
 2. GUILD SYSTEMS. (P. 7.)
 3. FIRE BRIEFS OR KING'S LETTERS IN ENGLAND. (P. 12.)
 4. INDIVIDUAL UNDERWRITERS. (P. 13.)
 5. PRIVATE CORPORATIONS. (P. 15.)
-

I. GOVERNMENT INSURANCE.

2285 B. C.—1906 A. D.

NATIONAL, STATE AND MUNICIPAL.

Babylon,
2285 B. C.—
2242 B. C.

The earliest form of insurance known to have existed is to be found in the Code of Hammurabi, (or Kammurabi, or more exactly Ammu-rabi, the Biblical Amraphel, Gen. xiv, 1), King of Babylon, B. C. 2285-2242. This is the oldest code of laws in the world, during the time of Abraham, and over 4,000 years ago. Sections 23,48, viz. :

Brigand.

"If the brigand has not been caught, the man who has been despoiled shall recount before God what he has lost, and the City and Governor in whose land and district the brigandage took place shall render back to him whatsoever of his was lost." (Sec. 23.)

Thunder-
storm.
Lack of
Water.

"If a man has a debt upon him and a thunderstorm ravaged his field or carried away his produce, or the corn has not grown through lack of water, in that year he shall not return corn to his creditor, he shall alter his tablet and shall not give interest for that year." (Sec. 48.)

NOTE: Class legislation, protecting the farmer at the cost of the creditor.

Law of Mo-
ses, about
1300 B. C.
Setting Fire
to Fields.

"If a fire break out and catch in thorns, so that the stacks of corn or the standing corn, or the field be consumed therewith; he that kindled the fire shall surely make restitution." (Exodus xxii, 6.)

Rome.
Marine
Insurance.

During the Republic the Government (Rome) for the purpose of encouraging merchants who had contracted to supply the army abroad with provisions, agreed to bear all losses that might happen to the cargoes during the voyage

from perils of the sea or hostile capture. (Livy L. 23, ch. 49; L. 25, ch. 3.) So Seutonius (L. 25, ch. 2) says that during the period of apprehended scarcity at Rome the Emperor Claudius offered indemnity to those who would bring provisions to the city. (A. D. 43 Haydn's Dic. of Dates.)*

Similar plans for Government insurance during maritime war are still urged. At the Rouen conference, 1900, of the International Law Association, it was stated that the merchants of Great Britain favored this system of Government indemnity instead of the adoption of the present system of capture of private property. (Elliott on Ins., p. 5, n. 10.)

Thomas, Count of Flanders. By Article xi of the law (Cora, or Keure, as it is termed), there is recited the following liability of the Community, known as the Custom of Furnes, viz. :

"In whatsoever house a fire shall have been secretly made, the whole place instantly makes good the damage through those whom the guardians select; but if the malefactor can be found out he is banished forever, and the damage is made good out of his property; the residue indeed he yields up to the Court. Truly he who can exculpate himself from the accusation will be commended by those guardians; but until he can do so, he is suspended. All his goods will be in the pleasure of the Court; the damage being first restored to him who has the injury."

When the entire community was made responsible for the payment of fire losses, there is no record of the method in which the collection was made; whether by a flat rate per value of the property to be charged, or a special rate for each, according to its particular hazard. (Walford Vol. 3, p. 438.)

The Grand Khan, Emperor Kubli Khan, sends every year his commissioners to ascertain whether any of his

Rouen Conference, 1900.

Flanders, A. D. 1240.

Custom of Furnes.

China, A. D. 1259-1294.

* Emerigon on Ins. p. 76 (1784; Puffendorf, Bk. v. ch. 9 (1710); Magens on Ins., Vol. I, p. 1 (1755); Park on Ins., Intro. iii (1800).

subjects have suffered in their crops of corn from unfavorable weather, from storms of wind, or violent rains, or by locusts, worms, or any plague; and in such cases he not only refrains from exacting the usual tribute of that year but furnishes them from his granaries with so much corn as is necessary for their subsistence, as well as for sowing their land. With this in view, in times of great plenty, he causes large purchases to be made of such kinds of grain as are most servicable to them, which is stored in granaries, provided for the purpose in the several provinces and managed with such care as to insure its keeping for three or four years without damage.

It is his command, that these granaries be always kept full in order to provide against times of scarcity; and when, in such seasons, he disposes of the grain for money, he requires for four measures no more than the purchaser would pay for one measure in the market. In like manner where there has been a mortality of cattle in any district, he makes good the loss to the sufferers from those belonging to himself, which he has received as his tenth of produce in other provinces.

Were an accident to happen by lightning to any head of cattle, flock of sheep or other domestic animals, whether the property of one or more persons, and however large the herd may be, he does not demand the tenth of the increase of such cattle during three years; and also if a ship laden with merchandise has been struck by lightning, he does not collect from her any custom or share of her cargo. (*Life and Travels of Marco Polo*, ch. 21, p. 227.)

Russia.

In Russia the National Government does not undertake fire insurance, but in some of the towns the inhabitants are jointly responsible for accidental fires, and the town or municipality makes enforced contributions according to the status and wealth of the inhabitants of the town or villages. (Charles Stewart, Glasgow, 1882; Beddall's address, 1898.)

- | | |
|---|------------------|
| In 1554. Holland raised loan by sale of life annuities. | Other Countries. |
| In 1692. English government granted life annuities. | |
| In 1778. Denmark—Municipal fire insurance introduced into Copenhagen and other cities. | |
| In 1807. Frankford—State fire insurance prevailing but abandoned in 1869. | |
| In 1849. Italy—(Parma and Modena) State insurance of fire and hail. | |
| In 1850. France—Grants life annuities, and in 1868 life and accident insurance under State guarantee. | |
| In 1853. England—Government life insurance. | |
| In 1869. New Zealand—Life insurance by government. | |
| In 1870. Switzerland—State (or control) fire insurance introduced before this date. | |

NOTE: The number of schemes which have at various times and in various countries been projected for placing insurance under control of government, and also the arguments which have been used to the effect, that it is one of the functions, not to say duties, of the government to take control of the insurance interests, probably far exceed the expectations of those who have given but casual attention to the subject.*

II. GUILDS, MUTUAL OR BENEFICIAL ASSOCIATIONS. P. 4.

From Early Ages to 1906 A. D.

The guild systems have nurtured the principle of association for the common protection in wealth and in adversity, and have a remote antiquity.

It is to be traced through the Oriental races, back to the ancient Hindoos; and in fact seems coeval with Commerce and Civilization.

The guilds were in truth the insurance associations of the Middle Ages and probably the only ones which were

* Walford's Cyc., Vol. 5, p. 474; E. F. Beddall, address, 1898; Farnum's, Yale lecture, 1903-4; Elliott on Insurance, Sec. 2, note 10.

required or could have existed in that state of society.
(Walford's Cyc., Vol. 3, p. 438.)

**Relief by
Guilds.**

The relief granted by many of these guilds were, viz.: relief in poverty, sickness, old age, loss of sight, limb, loss of cattle, fall of a house, making pilgrimages; loss by fire flood, robbery, shipwreck; imprisonment, defending law-suits, being deaf and dumb, afflicted with leprosy, dowries on marriage of females, or on their entering a house of religion, aid in temporary pecuniary difficulties, aid to obtain work, repair of roads and bridges. (Walford, Vol. 5, p. 343.)

Greece.

The Greeks in the Second and Third Centuries, B. C., had their associations, called Eranoi or Thiasoi, which were numerous at Rhodes, in the Islands of the Archipelago, at the Piræus, and in other important places. These societies partook more nearly of the character of mediæval guilds than did the Roman; the members paid contributions to a general fund, aided one another in necessity, provided for funerals, met in assembly to deliberate on their affairs, and celebrate feasts and religious sacrifices in common. Women could be members, and were admitted to the meetings. (Encyclopædia Britannica.)

**Greece and
Rome.**

There existed, too, among the poor, both of Greece and Rome, mutual insurance societies, which undertook to provide for their sick and infirm members. (Pliny Ep. X, 94, and the remarks of Naudet, pp. 38-39: Lecky Hist. of European Morals, p. 83.)

**English
Guilds.**

The Reformation found the guilds in England and other places wealthy, conservative, and not over-careful of the rights and interests of those outside their own membership. Henry VIII, of England, having found the plunder of the church insufficient to meet the wants of his court and his army of spies, made a descent upon the guilds also. Only those survived that were able to make a show of stout resistance, usually combined with a "loan" to His Majesty. This policy was repeated by Edward VI and Elizabeth. In fact, the guilds were destroyed and nothing was sub-

stituted for them. (Campbell's Insurance and Crimes, p. 125.)

In China insurance has long been carried on, how long China. is the only mystery connected with it. Its application has been made in various useful purposes, as fire insurance, life insurance, relief in times of sickness, insurance on growing crops against robbery or by cattle; destruction by civil commotion, also law-suits. (Walford, Vol. I, p. 512.)

"Societies for the assistance of those who have funerals are of common occurrence, and are of many different kinds. There is special reason for the organization of such leagues (called *pai-shê*). Sometimes each family belonging to the league pays into the common fund a monthly subscription of 100 cash a month (a single cash may be taken as one-thousandth of a Mexican dollar). Each family so contributing is entitled upon occasion of the death of an adult member of the family (or perhaps the older generation only) to draw from this fund, say, 6000 cash, to be used in defraying expenses. If there is not so much money in the treasury as is called for by deaths in families of the members, the deficiency is made up by special taxes upon each member. According to a plan of this sort, a subscriber who drew out nothing for five years would have contributed the full amount to which he is entitled, without receiving anything in return. A mutual insurance company of this nature is probably entered into on account of the serious difficulty which most Chinese families experience in getting together ready money. From a financial point of view there may be nothing saved by the contribution, but practically it is found to be easier to raise 100 cash every month than to get together 6,000 cash at any one time.

Chinese
Funeral
Societies,
1899.

"Another form of mutual assistance in the expenses of funerals is the following: A man whose parents are well advanced in life knows that he may at any time be called upon to spend upon the ceremonies at their death an amount which it will be difficult to raise. He therefore 'invites an association' (*ch'ing hui*), each member of

which is under obligation upon occasion of the death of a parent to contribute a fixed sum, say 2,000 cash. The membership will thus be composed exclusively of those who have aged parents. The number of names may be forty, which would result, whenever a call shall be made, in the accumulation of 80,000 cash (80 Mexican dollars). With this sum a showy funeral can be paid for. At each funeral all the subscribers to the funeral fund are present ex officio, and it is not necessary for them to contrbute any other share than that represented by the 2,000 cash of the assessment. Each member of the association appears in mourning costume, and wailing as would become a near relative of the deceased. The presence of so large a number of mourners in addition to those really near of kin gives a great deal of "face" to the individual whose parent has died, and this is perhaps quite as attractive a feature of the arrangement as the financial assistance. The strain upon the resources of a single courtyard or set of yards in preparing food for the guests, often numbering hundreds, is very great. The adage says truly,

"When old folks die, the rest feed high."

Chinese
Wedding
Society,
1899.

A family, for example, wishes to marry a son on a scale which the family resources will not warrant. It then resorts to an expedient, which is called "drawing friends by means of other friends." Let us suppose that it is desired to raise the sum of 100,000 cash. A hundred cards of invitation are prepared, ten of which are sent to ten friends of the family, who are invited to a preliminary feast. These friends receive the extra cards of invitation, and each one gives a card to nine other "friends" of his own, who agree to attend the wedding in question, each one bringing with him as a share a string of cash. By this means a family with little wealth and few connections is able suddenly to blossom out at a wedding with a hundred guests (many of whom nobody knows), and all expenses are provided for by the liberal contribution of the "friends" and of the friends of the "friends." The only motive for the act on the part of the original "friends" is friendship and the gustatory joy of the wedding feast.

The only motives for the friends of the “friends” are their friendship and the same joyful feast. It is needless to observe that the 100,000 cash thus suddenly raised is a debt, which the family receiving it must repay in future contributions.

“The reason for the organization of a society for watching the crops is the fact that so many poor people everywhere exist, whose only resource is to steal. In a country where the poor are in such a majority as in China, and where the fields are altogether open, it is desirable, if not necessary, to have some plan by which property so unprotected can be effectively watched. The farmer’s hope is that seeing that some one is on guard they will go elsewhere, and steal from those not on guard. The villages which have entered into some one of the associations generally proclaim this fact by painting or whitewashing upon the side of some conspicuous temple four characters signifying that the fields are looked after in common. When a fixed number of persons is employed the expense is shared by the village, being in fact a tax upon the land, paid in the direct ratio of the amount of land which each one owns. The details are agreed upon at a meeting called for the purpose in some temple convenient to all the villages, and the meeting is attended by representatives of each village interested. At this meeting are settled the steps to be taken in case of the arrest of the offenders.” (Village Life in China. Arthur H. Smith, D.D., 1899.)

Chinese
Association
for
Watching
Crops,
1899.

It is perhaps of little use attempting to ascribe to any one country or race the special initiative of these institutions, any more than it would be to say that the custom of men to congregate in towns originated with this or that nation. Human nature is the same everywhere, and two motives induce men to join together: weakness, seeking the power of numbers for resisting oppression, or for mutual assistance; and the affinity which those pursuing the same occupation and possessing the same interests have for each other.

General
Remarks on
Guilds.

These societies “may thus have one history in China, another in India, another in Greece or Rome, another in

the Europe of the Middle Ages; the like needs will require the like kinds of help, and develop institutions which, amid whatever diversities of outward garb, will substantially fulfil the same ends." (J. M. Ludlow.)*

**Similar
Systems,
1906.**

Somewhat similar systems are in existence at the present time, and cover many of the points of relief in the old guild system, and some of the points mentioned are now carried out by Corporations and Associations, some with a capital stock and others working under the Mutual System.

Under these benevolent institutions may be placed the Odd Fellows, providing for cases of death and sick benefits; having lodges in the United States, Sweden, Switzerland, Denmark, New Zealand, France, Hawaii, Japan, Australia, Germany and the Philippine Islands.

III.—FIRE BRIEFS (OR KING'S LETTERS) IN ENGLAND. P. 4.

1653-1906 A.D.

**Fire
Briefs,
1653.**

"One expedient that was tried before the invention of fire insurance as a separate trade was what is known as the 'fire brief.' I do not say that this device was not in use long before the guilds were destroyed; in fact, it seems most probable that it was. But the first mention of it that I find (in Walford's Cyc., Vol. 3, pp. 313, 316) is in 1653, during the Protectorate of Oliver Cromwell. The idea of the fire brief was that sufferers by fire should be commended by the head of the nation to the benevolence of charitably disposed people. The occasion of the first fire brief mentioned was the burning of 224 houses in Marlborough. Copies of the order of the Council, in which the Protector—who personally subscribed £2,000—requested donations, were distributed through the sheriffs and chief constables to the church wardens of each parish.

* Encyclopædia Britannica, title Guilds; Friendly Societies of Antiquity, by H. Tompkins; History and Development of Guilds, by Bretano; English Guilds, by Toulmin Smith; W. E. Wilda, on Guilds.

Collections were made and the money was sent through proper channels to treasurers in London, whose business it was to distribute relief to the sufferers.

"A mere glance at such a system is enough to reveal the opportunities it offered for imposition and fraud. Its speedy death was certain from the beginning. A case of abuse was brought before the House of Commons in 1701. According to one of the witnesses one Pemberton made an offer to certain parties to provide the money to secure a King's brief, if the others would agree not to prosecute him for losses they had suffered through a fire that had arisen in his place, and would sign the necessary petition. 'He told me that he had skill in the business, and that he knew some men in the country that had got good estates by gathering charity, and that it would be a constant spring to us,' said one witness. It is unnecessary to follow this confidence game; it is easy to see that it would soon be resorted to by sharpers on the lookout for a chance to take the money of the King's lieges." (Campbell's Insurance and Crime, pp. 125-126.)

These briefs were issued as late as 1705. About this date proposals were on foot to raise a permanent fund for fire losses, without waiting the return of the briefs, the fund to be provided from collections made during the visitations of the bishops. This was not carried out. (Walford's Cyc., Vol. 3, pp. 313, 316.)

While fire briefs have been discontinued in England, and never known to have been in use in this country, yet somewhat similar methods have been pursued in the United States to secure the necessary relief from the charitably disposed; thus, to meet the San Francisco disaster (1906) committees, appointed by the Governors of States and Mayors of cities, secured from the community the requisite relief.

United
States,
1906.

IV.—INDIVIDUAL UNDERWRITERS. P. 4.

1194-1906 A.D.

Individual
Under-
writers.
Marine.

Prior to 1194 A.D. merchants and ship-owners in the commerce of the Mediterranean were supposed to have

introduced the idea of Marine Insurance. (Haydn's Dic. of Dates.)

In the beginning of the business of Marine Insurance in England (in general use 1560), it was usually effected by policies to which individuals subscribed their names, each one being responsible for the sum set against his name and no more. It was customary for some person to establish an office as insurance broker or agent. To this office merchants resorted who wished to insure, others to be insured.

If one applied to the broker, stating the ship or cargo on which he desired insurance, and the voyage or time, these were written at the head of the sheet which was laid upon the broker's table.

Between him and the insured, a premium was agreed upon, and this also was designated.

"Underwriter."

Then one and another of those who were willing to insure such property on such terms wrote their names upon the sheet under the heading above mentioned, stating also the amount they were willing to insure; and this continued until names enough were subscribed to fill out the whole amount which the insured desired to cover.

From this practice grew the word "underwriter" in the exclusive sense of insurer, and as exactly synonymous with "insurer." (Phillips on Ins.)

The individual underwriter as well as corporations transact marine insurance at the present time (1906) in England, while in the United States the business has been superseded by corporations.

Solvency of
Insurer.

It frequently happened that the insured doubted the ability of the insurer to meet the payment of the loss, and in order to dissipate his fears it was allowable for him to effect insurance on the solvency of the underwriter.*

Inverted
Life
Insurance.

In Shakespeare's time (1611) travelers before going abroad put out a sum of money in the hands of a person called a depositor, for which they were to receive two, three, four or even five times the amount upon their re-

* Emerigon, p. 205; Santerna, Part 3, Note 56; Straccha. Introduction N. 49.

turn, the rate being according to the supposed danger of the expedition; of course the sum fell to the depository in case the putter did not return. (Shakespeare's *Tempest*, Act 3, Scene 3.)

In England prior to 1755 quite an extensive business **Lotteries.** was conducted, insuring that a lottery ticket would not draw a blank. (Magens, Vol. 1, p. 30.)

The subject of fire insurance by individual underwriters **Fire Insurance.** will be considered hereafter under the head of private corporations. It is not inappropriate to state that to many the business was not profitable, as 150 failed in the course of a few years prior to 1720. (Smith's *Wealth of Nations*, Vol. 3, p. 129.)

At the present time (1906) fire insurance is conducted in England by individual underwriters.

V.—PRIVATE CORPORATIONS. P. 4.

1680-1906 A.D.

The system of fire insurance by private corporations was a gradual development from the guild systems and individual underwriters (in London). The earliest suggestion as to insurance by private corporations was in 1609, when Count Anthony Von Oldenberg, in considering the matter of fire insurance in his dominions, thought the business should be carried on by a corporation and not by a private individual.

In England many efforts were made from time to time **England.** to introduce more efficient insurance systems, as well as fire defences.

In 1635 Charles I. was petitioned by certain individuals to be permitted to insure the property in London, in addition to which they agreed to maintain watchmen to spy out fires, and also to have a fire department; in 1638 the petition was granted and a bill was to have been prepared, but there is no further trace of the matter. (Walford, Vol. 3, p. 439.)

After the lapse of thirty-one years the citizens of London were suddenly awakened to the fact that the city was **London Fire, 1666, Sept. 2.**

without fire protection and fire insurance; and in order to be a warning to themselves as well as to others a monument was erected at a cost of £14,500 to record in perpetual remembrance the great fire of September 2, 1666. After burning four days the ruins covered an area of 436 acres in which over 13,000 buildings were destroyed and about 200,000 persons were rendered homeless. The fire loss has been estimated at £10,716,000, but the distress consequent upon the fire cannot be calculated.*

Cause that
Led to
Insurance
Corpora-
tions.

The disaster of London (1666) was the direct cause that led to the introduction of private insurance Corporations, and although it took some years to perfect the change, it was, however, finally accomplished, and the Corporation of to-day was only secured after many years of experience and the expenditure of vast sums of money.

After the London fire various methods were introduced. Thus, fire insurance clubs were formed and continued for several years; also, during the first year after the fire (1667), "The Fire Office" was opened in London by an individual underwriter named Dr. Nicholas Barbon (or Barton or Barron, one of the first and most considerable builders of the City of London), whose business was afterwards absorbed by a proprietary company on May 7, 1680. Shortly after this date the municipality of London agreed to undertake the insuring from fire, but after a little over a year's trial were compelled by the Court to abandon the matter.

First
Insurance
Company.

In the following years other Insurance Companies were formed, and in 1696 a Mutual Company, known as the "Hand in Hand," was organized, and limited to the insurance of buildings. This Company is now the oldest English Insurance Company in existence, and is the parent of the first fire insurance company in the United States, established in Philadelphia 13th of April, 1752, and called "The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire."

First
General
Under-
writing
Company.

It has been considered by many that the present general system of fire insurance by Corporations began in

* Walford's Vol. 4, p. 31; Haydn's Dic. of Dates.

1710, when the Sun Fire Office of London (after purchasing the business of Charles Povey, an individual underwriter) was established as a general fire underwriting Company. (Walford Cyc.)

For information as to companies out of existence, as well as those now conducting the business of fire insurance, may be found by consulting:*

The earliest English Life Insurance Company was organized in 1706, and there are some traces of life insurance to be found in very early times. The modern system of life insurance probably began with the Equitable Society for Lives, of London, about 1756. (Elliott, p. 12; Walford, Vol. 2, p. 571.) A few years after this in 1759, a Corporation was organized in Philadelphia for the purpose of providing protection for the families of Presbyterian Clergymen, and known as the Presbyterian Ministers' Fund, and is still in existence.

Life
Insurance,
1706.

Insurance on cattle carried on at Hamburg as early as 1720. (Magens on Ins., Vol. 1, p. 34.)

Live Stock
Insurance.
Death of
Cattle, 1720.

The origin and practice of insuring against devastation committed upon glass and crops by hailstorms was founded in 1797 at Newbrandenburg, Germany. (Walford, Vol. 5, p. 586.)

Hail
Insurance,
1797.

In former times in England, when men were liable to be drawn to serve in the Militia, but might purchase a substitute, a system of insurance was established to provide them with necessary funds. (Encyclopædia Britannica, title "Insurance.")

Army Draft.

To Connecticut belongs the credit of the first limited liability joint stock act in 1837.

Employer's
Liability,
1837.

The policy holder is indemnified against loss that he may sustain by reason of demands or actions for damages recoverable by legal proceedings for injuries to the person suffered through negligence of the insured.†

In 1840 was organized in London a Company to guarantee against fraud or dishonesty of their employees.

Corporate
Surety,
1840.

* Walford's Cyc.; Fowler's History of Ins.; Spectator Publications (N. Y.); Annual Reports of State Ins. Depts.

† Elliott on Insurance, Chap. 16; Dunham's Yale Lectures, 1903-4.

In 1853 the New York Legislature passed the initial act in the United States.

These Surety Companies have extended the business to include almost all cases where it becomes necessary for an individual to give bond for the performance of a Contract, or where bonds are required under the rules of Court. In some States trust companies are permitted to do Surety bonding.*

Casualty Insurance.

Under this title has been included from time to time various branches of insurance.

**Captivity Insurance.
Etc., Etc.**

It has included insurance against captivity; loss of life or limb; against perils of marine travel, etc., etc.

**Accident Insurance,
1848.**

Many of these branches have now grown to be sufficiently important to bear distinctive titles, hence we have Captivity Insurance, Accident Insurance, Marine Passengers Insurance, all lifted out of Casualty Insurance. (Walford, Vol. I, p. 460.)

This insurance has generally been classed under the comprehensive designation of "Casualty Insurance." At best "Accident Insurance" can constitute but one department of Casualty business.

Ordinary life insurance protects against accident or disease, but it has been found that a separate insurance against the consequences of accident meets the requirements of a large class of persons.

It is generally considered that the business of Accident Insurance is of modern origin, and in its present form dates no further back than 1848.†

Burglary insurance was projected in 1865.

This system was first formulated by J. M. Allen, the late president of the Hartford Steam Boiler Inspection & Insurance Co. of Connecticut, incorporated in 1866.

It took upon itself the supervision of the boiler and guaranteed its safety, paying for all damage to the boiler, building and machinery should explosion incidentally happen.

* Walford, Vol. 3, p. 282; Elliott on Ins., p. 459; Supplee's Yale Lectures, 1903-4.

† Walford, Vol. I, p. 6; Encyclopædia Britannica, "Insurance"; Elliott on Ins., p. 381; Dunham's Yale Lectures, 1903-4.

Insuring merchants and traders against loss through Credit Insurance. the insolvency and dishonesty of their customers is of very recent origin. (Elliott on Ins., p. 465.)

Insures against loss through defects in the title to the Title Insurance. real estate or by liens or incumbrances thereon. (Elliott on. Ins., p. 469.)

These risks are covered by fire insurance Companies. Rent and Lease. They cover for loss of rent to the landlord and also to cover the liability of the tenant in case of destruction of the premises by fire.

Tornado, Windstorm, Breakage of Plate Glass, Loss of Miscellaneous. Goods in the mail, Failure of Crops, etc.

Note.—It will not be inappropriate to briefly define what constitutes insurance. The Court said: "In order to determine whether a transaction is a Contract of insurance, it must contain the element of indemnity for loss in respect to some specified subject from some specified risks; and to constitute one or either a life, endowment or casualty insurance, the payment of the indemnity must be contingent either upon the duration of human life or the happening of a casualty resulting in bodily injury to the insured." "The peril of loss by insolvency of customers is just as definite and real a peril to a merchant or manufacturer as the peril of loss by accident, fire, lightning or tornado, and is in fact much more frequent. No reason is perceived why a contract of indemnity against this ever-present peril is not as legitimate a contract of indemnity as a contract which indemnifies against the more familiar but less frequent peril of fire." "Guaranteeing the fidelity of officers and the performance of Contracts is insurance." "A contract guaranteeing a fixed revenue per acre for farming lands, and as a means of doing so agreed to pay a stipulated sum per acre for the crop grown upon the land, irrespective of its value, was a contract of insurance. The Court said the contract exactly met the requirements of an insurance contract."

"So a contract which binds a company in consideration of a sum paid, to purchase at a fixed price the accounts which during one year a certain business firm should have

against certain ascertained insolvent debtors, or judgment debtors against whom execution should be returned unsatisfied, is an insurance contract." "Also a contract guaranteeing a party against the loss of a sum of money deposited in a bank is a contract of insurance."

"The different kinds of insurance have now become as common as the risks to which life and property are subject." (Elliott on Insurance, sec. 6, 7, 8.)

State Legislation. In the State of Pennsylvania Acts of the General Assembly provide for the incorporation of Companies for insurance against fire, tornadoes, lightning, windstorms, for marine and inland insurance, for life insurance and annuities, for health and accident, live stock, steam, boiler, fidelity, surety, real estate title insurance and also against any unknown or contingent event or liability whatever; also for Fraternal and Beneficial Societies.

Each State has its Special insurance regulations; and all insurance companies, both home and foreign, are under the supervision of the State Insurance departments; their annual reports give an accurate account of the financial standing of each company and the business transacted.

Having made a partial examination of the various systems of insurance, and some of the subjects covered, it will be proper to more fully consider:—

FIRE INSURANCE :

1. OBJECTS AND ADVANTAGES.
2. DUTY OF THE INSURED.
3. DUTY OF THE INSURER.
4. HOW TO REDUCE LOSSES AND RATES.

I.—OBJECTS AND ADVANTAGES.

The original object of insurance was limited to the prevention of a pecuniary loss from falling with crushing effect upon the few by dividing it among the many. The mere payment of loss to a few is now but a small part of the advantages to be obtained by the Community. The great gain is that it stimulates credits whereby the Community find employment and towns become prosperous cities.

The general commercial interests of the whole country are dependent upon the present Capital being continued in business enterprises, and that idle capital should be induced to seek investment.

Insurance guarantees to capital that many of the risks to which it is exposed will be eliminated, and by the protection thus offered Capital is free to enter the channels of trade.

It is thus seen that insurance is one of the magnets that holds and controls the investment of Capital, and if discontinued or abused the whole community would suffer, as disastrous consequences would follow, viz. :—

- (1) Capital would withdraw from many business ventures; mortgages would be foreclosed and many failures resulting.
- (2) The Community would be thrown out of employment.
- (3) The Markets would be controlled by a few persons of wealth.
- (4) Rates for loans would advance, as capital will not take the chance of fire losses; it would be cheaper to pay higher insurance rates than advanced interest rates, if without insurance.

2.—DUTY OF THE INSURED.

In order that the danger of fire should not be lost sight of, London erected a costly monument to bear in perpetual remembrance the destruction of that City; and it would be well to erect a monument in every city calling attention to the fact that the same elements for a conflagration exist in each city that destroyed Chicago, Boston, Baltimore and San Francisco.

Duty of Insured.

After the introduction of insurance the losses became so frequent that some thought protection promoted carelessness, and the advantages offered were outweighed by the disadvantages. There may be some foundation for such a feeling, as it is found that increase of rates are met by a corresponding increase in losses; and on the other side a decrease in insurance brings a decrease in losses.

Insurance Promotes Carelessness.

With all the disadvantages, it is nevertheless indispensable to the financial credit of those engaged in business, and must be upheld for the benefit of the community. At the present time it is being subjected to overtaxation and excessive expenses; and if insurance is to be maintained, the fire waste caused by general carelessness must be controlled, for if the same increased ratio of loss is to continue, insurance will become too expensive and capital will not seek insurance investments.

There is some data upon which to quote rates for the usual run of losses, but during the year (1906) a new element of danger presented itself in the form of an earthquake, cutting off the water supply and leaving San Francisco to the ravages of the flames. How frequent this new form of danger will reappear to upset the rate calculations must be left for the future to determine.

Fires for Ten Years. For the ten years ending December 31, 1905, the losses paid in the United States by the Stock Companies (American and Foreign) amounted to \$905,000,000.

This great loss of value has become a public calamity, and methods should be adopted to check the destruction. With every loss of a manufactory many are thrown out of employment who rely upon the daily wage for daily bread, and much of the distress to which labor is subjected is due to the carelessness in regard to property.

Fires for 1904. During the year 1904 the fire waste in the United States was 190 millions of dollars, and it should be firmly fixed in the mind that this destruction of property is a permanent loss of value to the Community. When cities like Boston, Chicago, Baltimore and San Francisco are destroyed the world is permanently impoverished by the event, and insurance cannot reinstate the destruction. The most that it can do is to create a new City by the use of funds previously collected from the Community.

Insurance was never intended to take the place of the daily care due by the owner, although there may be fire-proof construction and an abundance of fire appliances. Daily house cleaning and watchfulness must never cease, and only after all safeguards have failed can the owner feel that he has properly performed his duty.

There can be no doubt that the System should be Insurance
Guarded. guarded, and as early as 1729 the English House of Lords decided that the benefits of insurance should be limited to parties having an interest in the property at the time of insurance as well as at the time of the loss. While some protection was given to the System, by taking the insurance contract out of the class of wagers, yet many other questions must be left for settlement to the integrity and enlightened wisdom of the insured.

The insured must not attempt to make a profit by a Robbing
Insurance. fire loss, and anyone who claims more than the actual loss is robbing the whole Community and undermining the System of insurance.

Many losses are caused by improperly constructed buildings, and an inadequate water supply; it therefore becomes the duty of the Municipality to enforce judicious building laws and provide appliances for controlling and extinguishing fires. This can never become the duty of the insurer, and the most he can do toward the reduction of losses is to induce the insured to improve the risk by offering a reduction in the rate. Duty of
Municipality.

The most dangerous attack to the System is the valued policy law now in force in twenty-one States, whereby in cases of total loss to buildings the loss is to be adjusted by paying the face value of the policies irrespective of the true loss sustained by the insured. "This law has not only increased the cost of insurance by its temptation for dishonesty, but has a demoralizing effect upon the morals of the people by its tendency to induce them to put a fictitious value upon the property when insuring, and then by means of gross carelessness, if nothing worse, selling it to the underwriters under the provisions of such pernicious practices." * The final result worked out by the statute is that the rate is increased throughout the community and the careless or criminal person obtains the funds. Valued
Policy
Laws.

* Elliott on Insurance; J. Macbeth Brown, Chicago.

3.—DUTY OF THE INSURER.

**Duty of
Insurer.**

The insurer, appreciating the enormous responsibility placed upon the System, has his entire efforts directed to the fulfilling of its engagements.

It must be admitted that to properly conduct any branch of the business it requires years of practical experience; and as new conditions are constantly arising the insurer must be alert, not only to note the change, but to apply the remedy.

**Insurer not a
Prophet.**

The insurer must not be placed in the position of a prophet to forecast future events, as it is beyond his knowledge and control. The most that can be expected of him is that his promise to meet a future loss is based upon an implied understanding that the business is conducted upon proper methods, and that the rates charged are thought to be adequate and the amount carried is not excessive.

While the future losses are beyond the control of the insurer, yet the past furnishes information, and if it fails to act as a guide, will at least teach him to be prudent.

**Danger
Signals.**

The insurer who issues a policy in the present state of business is like the captain of a vessel who leaves port in the face of danger signals, for the insurer knows that the losses of the United States have been yearly increasing and are likely to so continue, and he further knows that no rate will be adequate to cover carelessness of the owner.

The System as a whole has been able to meet the yearly increasing losses (San Francisco excepted) from the annual premiums. A few figures may help to a better understanding of the matter:

**Business of
197 Stock
Companies
for 1904.**

In taking the business of 197 Stock Companies in the United States for 1904, the premiums received were 220 millions, upon which policies were issued promising to pay in case of loss $29\frac{1}{2}$ thousand millions. Of course, the promise was made contingent upon loss happening. With anxiety the insurer awaited the end of the year, and when

it arrived the losses were found to be within the premium income, viz., 141½ millions.

If the losses had exceeded the premium income, the balance would have been met by past accumulations, which shows the value of a surplus.

The rates charged at present about meet the usual run of losses, and were not intended to meet conflagrations. The losses paid in Baltimore not only consumed the annual premiums, but reduced the surplus; while the San Francisco disaster not only swept away the surplus, but in many cases encroached upon the Capital, and the impairment was reinstated by the stockholders.

As many of the Companies have not the same ability to meet their respective losses, it would be well to pursue what is considered safe business methods, and not to follow those which wreck the Company in order to obtain excessive profits.

*Conduct
of the
Business.*

The destruction of New York, Chicago, Boston, Baltimore, San Francisco and other causes compelling many Companies to retire from business furnish sufficient experience to show that a Company limiting its business to a single city cannot receive sufficient premiums from one locality to meet the losses of a conflagration, and while for a time local Companies, if policies be for moderate amounts, may be able to meet the usual run of losses, yet when large losses occur they disappear like an uncorked bottle in the ocean, that fills and sinks out of sight. Policies of companies doing a purely local business cannot be relied upon as offering the safest indemnity.

Time will not permit of an examination of all the points to guide the careful insurer in the conduct of his business. He fully understands the premiums must be drawn from all sections of the country, and the amount of insurance covered in each section should be so limited that in case of the total destruction of any one section it would not endanger the ability of the insurer to meet the loss.

There is still another point worthy of mention, but time forbids of an extended explanation. It is a question, however, when not considered by those starting new

Companies will limit their existence. The point is, that in view of the requirement of a legal reserve the amount of business transacted is limited in proportion to its net resources, and a Company writing a very large business with comparatively small Capital and Surplus may be compelled either to reinsure its risks or be forced into the hands of a Receiver.

As the Community look to the insurer to meet his obligations, the insured must expect to pay premiums adequate to meet the losses.

A person may be benefited by obtaining goods below cost, but a great difference exists between the purchase of goods and that of insurance. He may pay for the goods and carry them away, but the promise of the insurance payment, being in the future, may be impaired by the inability of the Company to meet the loss through inadequate rates, and then the insured has no one to blame but himself.

The insurer is nothing more or less than an agent of the Community to fix a rate that he may think will be adequate according to the particular risk and then to collect small sums, called premiums, from the many and to pay out larger funds to the necessarily fewer number who may have suffered loss.

While the insurer is to fix the rate, it is a difficult problem to determine what amount should be charged to meet unknown losses. In a Stock Company if the amount charged is too low the Company suffers, while in a Mutual Company the insured suffers.

The subject is too important to allow its solution to be determined by any one Company, and can only be settled by the combined experience of many Companies.

Insurance Associations

Throughout the United States Associations of Fire Underwriters have been formed and have been of great benefit to the Community, by preventing the destruction of property and giving reduction of rates for improvement of risks. These Associations have been doing work properly belonging to the municipality.

The idea of the insurers meeting to evolve proper methods of conducting the insurance business is not con-

fined to this country, but is common in Europe and has Associations been in vogue in England, Belgium, Italy, Austria, Norway, Sweden, Denmark and other localities.

It has sometimes been felt that these Associations of Insurers are in the nature of trusts, to crush out competition and make exorbitant profits, but such a view is incorrect. There is always room for new Companies to take the place of those fallen by the wayside; and as far as profits are concerned the carelessness of the insured and the unexpected conflagrations forbid any great profits from being made.

The Association of Fire Underwriters, for the making of rates and regulations for correct methods of business, is somewhat similar to the protective tariff of the United States, in the fact, that while in both cases they may act in partial restraint of trade, yet are both beneficial and necessary to the Community; the tariff builds up manufactures, while the insurer reinstates the manufacturer in case of loss.

The insurer who provides the funds for the payment of losses has a paramount interest in maintaining the Association, as he fully understands that if the fires could be reduced, the reduction of rates would necessarily follow and the business would be more profitable.

Many of the leading underwriters have taken the stand that the Insurance Company has nothing to do in the improvement of risks, but should simply charge a rate in accordance with the present condition of the property, be it good, bad or indifferent; while others, with more advanced thought, not only charge the rate to carry the present condition, but feel it to be their duty to suggest improvements in order to reduce the rate, believing there will be more profit in good risks at low rates than poor business at high rates. This latter thought is left to be accomplished by Boards of Underwriters, and is the basis upon which they are managed.

Note.—A valuable Historical Lecture on Fire Protection, by George Cuthbert Gillespie (1905).

Are
Associations
Trusts?

Associations
Similar to
the Tariff.

Shall
Risks be
Improved?

4.—HOW TO REDUCE LOSSES AND RATES.

**Community
Command
the
Situation.**

Putting aside all theory, and looking at the matter in a practical light, it must be admitted that the Community have the entire control of the situation, and the insurer is simply an agent to carry out its wishes.

The Community alone furnish the fires, while the insurer is expected to collect sufficient funds to meet the loss. It should be mutually understood that the greater the loss the higher the rate, and the smaller the loss the less the rate, but no method can be suggested to meet large losses by inadequate premiums.

If the Community expect losses to be promptly paid, they must furnish premiums to meet the demand, and there is no difference in this regard, whether the policy be issued by a stock or mutual company.

The vital question at issue is not the ability of the insurer to meet the losses, but how can the destruction of a city be prevented.

Many experiments to prevent losses have been tried, but the results have not been satisfactory; another remedy left is to force the community to a higher level; until this is accomplished losses will still continue and the rates will correspondingly increase.

**Fire
Marshal.**

By the Act of 24 March, 1903, and the Ordinance of 24 May, 1904, the Fire Marshal's Department is authorized to remove certain defects, but the act is so limited and the appropriation by Councils so small that little can be expected.

**Powers of
Act, 1903,
Should be
Increased.**

In order to properly cope with the dangerous situation the act should be expanded to cover all business risks, and a liberal appropriation should be made to engage sufficient expert insurance surveyors to examine each building and constantly patrol the district in which detailed, in order to keep the property in good order; and the insurer should not issue a policy to one whose property is not in proper condition or whose business is carelessly managed.

**Use Drastic
Measures.**

If all these remedies fail, the last and most drastic

measure is to limit the insured in the amount of the claim, irrespective of the insurance carried.

This proved effective in a certain class of manufactures, where fires were of frequent occurrence. It was found by attaching a 75 per cent. loss clause the insured lost 25 per cent. on each fire, and as losses proved unprofitable the fires ceased.

In Italy the same situation was solved by making the insured suffer one-tenth of the loss, and in Germany the insured assumes 25 per cent. of the risk.

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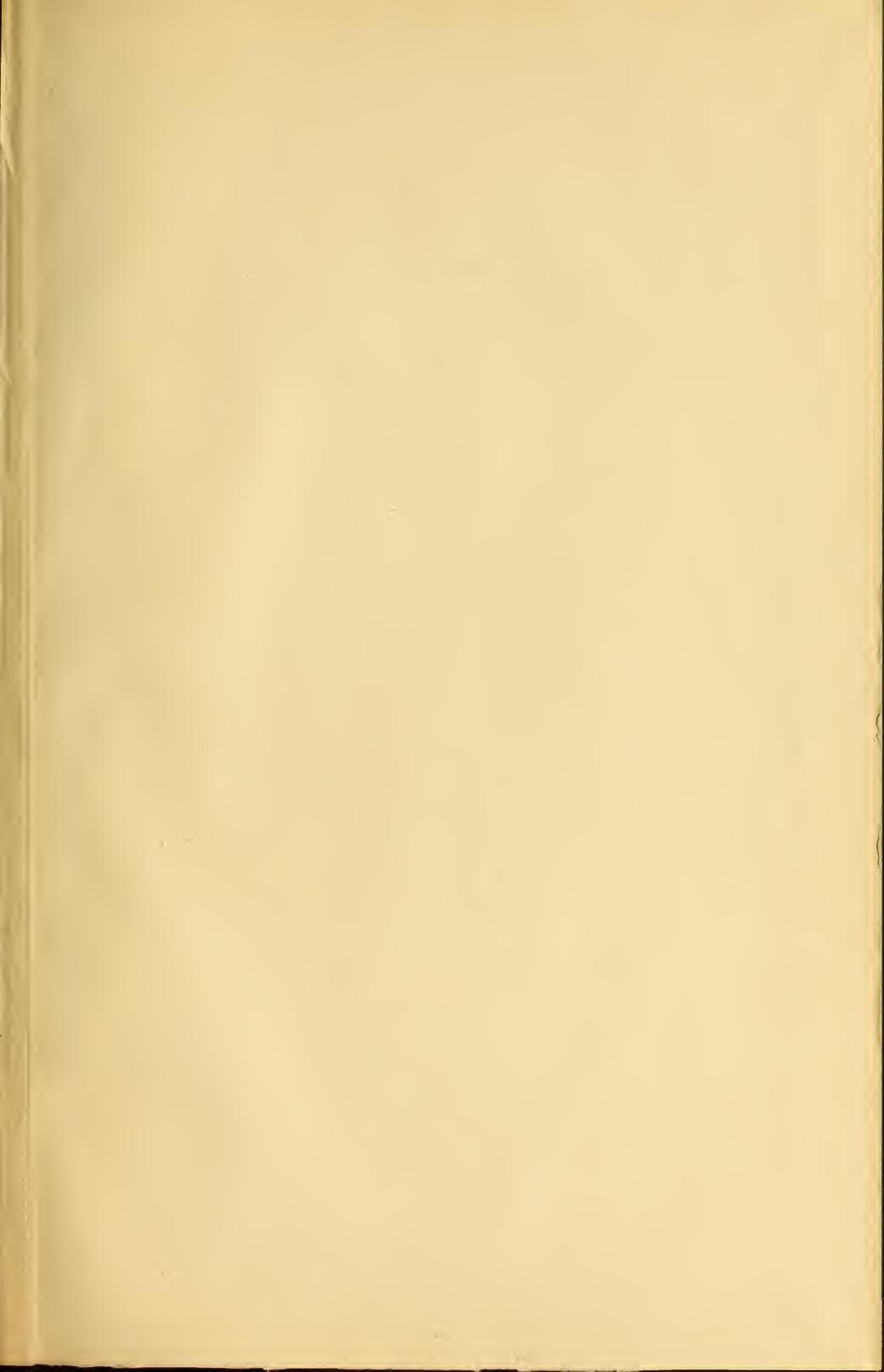
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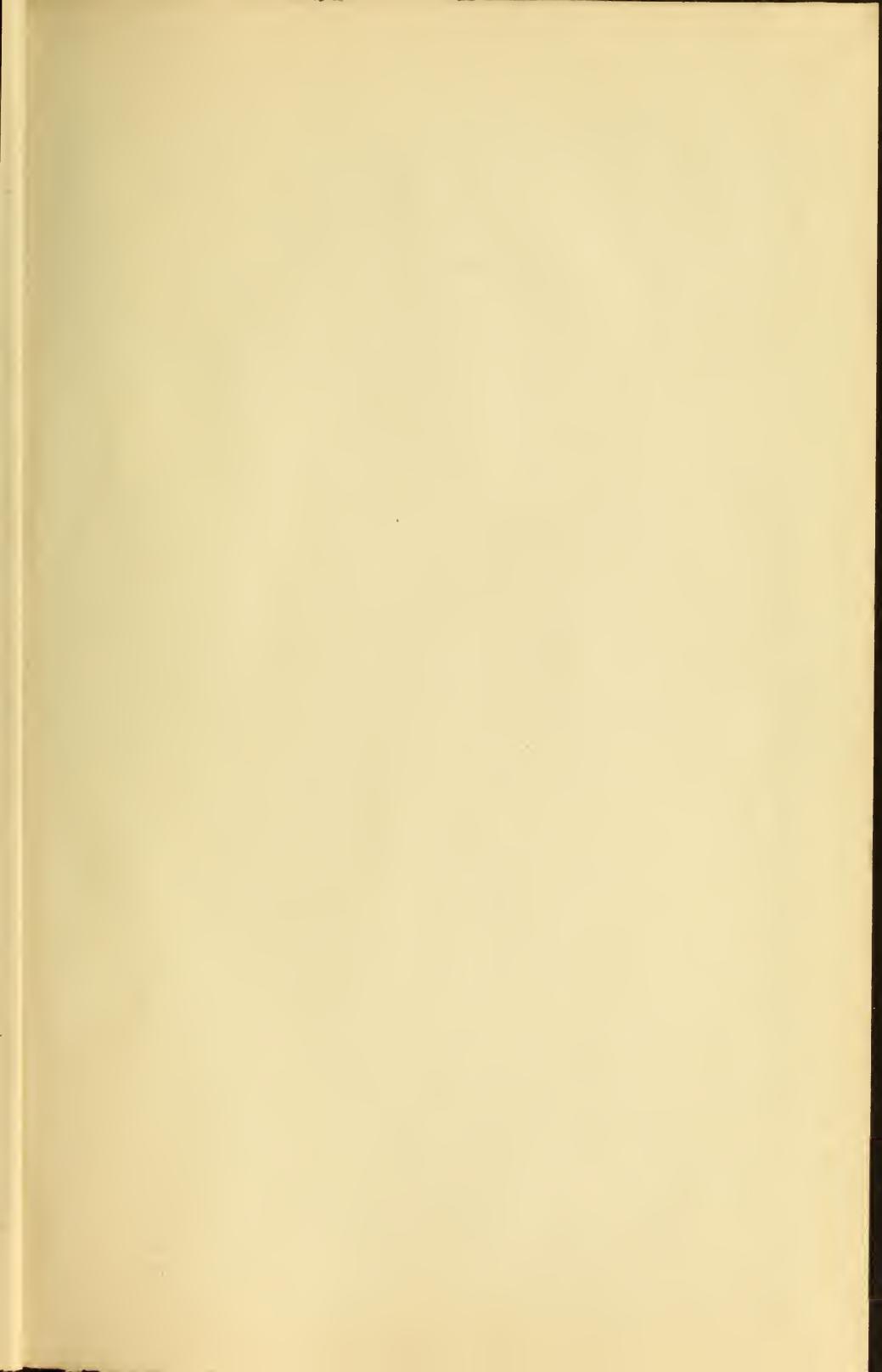
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